

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
COUNTYWIDE**

REPORT ON AUDIT

JUNE 30, 2006

**County of San Bernardino Special Districts
County Service Area No. 70
Countywide
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ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.

LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
LAURIE K. MARSCHE, C.P.A.
SCOTT W. MANNO, C.P.A.
JENNY LIU, C.P.A.
BRAD A. WELEBIR, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Countywide

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Countywide (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Countywide, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 24 is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 70 - Countywide has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malody & Scott, LLP

September 15, 2006

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County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,038,119	\$ 86	\$ 8,038,205
Interest receivable	65,154	200	65,354
Due from other governments	83,877	-	83,877
Capital assets, net of depreciation	2,756,202	-	2,756,202
	<u>10,943,352</u>	<u>286</u>	<u>10,943,638</u>
Total Assets	<u>10,943,352</u>	<u>286</u>	<u>10,943,638</u>
LIABILITIES			
Accounts payable	170,731	-	170,731
Salaries and benefits payable	526,632	-	526,632
Due to other governments	270,911	-	270,911
Compensated absences payable	835,403	-	835,403
	<u>1,803,677</u>	<u>-</u>	<u>1,803,677</u>
Total Liabilities	<u>1,803,677</u>	<u>-</u>	<u>1,803,677</u>
NET ASSETS			
Invested in capital assets	2,756,202	-	2,756,202
Unrestricted	6,383,473	286	6,383,759
	<u>\$ 9,139,675</u>	<u>\$ 286</u>	<u>\$ 9,139,961</u>
Total Net Assets	<u>\$ 9,139,675</u>	<u>\$ 286</u>	<u>\$ 9,139,961</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Services Area No. 70 - Countywide
Statement of Activities
For the Year Ended June 30, 2006

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 9,849,961	\$ -	\$ 9,849,961
Services and supplies	2,923,831	-	2,923,831
Depreciation	451,622	-	451,622
Loss on sale of capital assets	52	-	52
Intergovernmental	-	63,027	63,027
Total Program Expenses	13,225,466	63,027	13,288,493
PROGRAM REVENUES			
Charges for services	681,173	-	681,173
Operating grants and contributions	357,928	-	357,928
Net Program Revenue (Expense)	(12,186,365)	(63,027)	(12,249,392)
GENERAL REVENUES			
Investment earnings	188,638	1,334	189,972
Federal assistance	286,432	-	286,432
State assistance	126,701	-	126,701
Reimbursements	11,619,591	-	11,619,591
Other revenue	113,697	-	113,697
Total General Revenues	12,335,059	1,334	12,336,393
Change in Net Assets	148,694	(61,693)	87,001
Net Assets - beginning	8,990,981	61,979	9,052,960
Net Assets - ending	\$ 9,139,675	\$ 286	\$ 9,139,961

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Balance Sheet
Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	General (SKV)	Accum Reserve (CMT)	GH WWTP (CAC)
ASSETS			
Cash and cash equivalents	\$ 3,349,400	\$ 836,969	\$ 2,375,685
Interest receivable	23,872	7,919	23,368
Due from other funds	41,931	-	-
Due from other governments	40,854	-	-
	<u>\$ 3,456,057</u>	<u>\$ 844,888</u>	<u>\$ 2,399,053</u>
Total Assets			
	<u>\$ 3,456,057</u>	<u>\$ 844,888</u>	<u>\$ 2,399,053</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 133,423	\$ -	\$ 37,308
Salaries and benefits payable	526,632	-	-
Due to other governments	270,911	-	-
	<u>930,966</u>	<u>-</u>	<u>37,308</u>
Total Liabilities			
	<u>930,966</u>	<u>-</u>	<u>37,308</u>
Fund Balances:			
Reserved for:			
Encumbrances	480,821	-	184,841
Unreserved:			
Undesignated	2,044,270	844,888	2,176,904
	<u>2,525,091</u>	<u>844,888</u>	<u>2,361,745</u>
Total Fund Balances			
	<u>2,525,091</u>	<u>844,888</u>	<u>2,361,745</u>
Total Liabilities and Fund Balances	<u>\$ 3,456,057</u>	<u>\$ 844,888</u>	<u>\$ 2,399,053</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Compensated absences payable are not financial resources and, therefore, are not reported in the funds.

Net Assets of Governmental Activities

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 1,476,065	\$ 8,038,119
9,995	65,154
1,092	43,023
-	40,854
<u>\$ 1,487,152</u>	<u>\$ 8,187,150</u>
\$ -	\$ 170,731
-	526,632
-	270,911
<u>-</u>	<u>968,274</u>
-	665,662
<u>1,487,152</u>	<u>6,553,214</u>
<u>1,487,152</u>	7,218,876
<u><u>\$ 1,487,152</u></u>	
	2,756,202
	<u>(835,403)</u>
	<u><u>\$ 9,139,675</u></u>

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	General (SKV)	Accum Reserve (CMT)	GH WWTP (CAC)
REVENUES			
Investment earnings	\$ 72,682	\$ 21,829	\$ 65,547
Contributions	5,471	-	-
Service fees	681,173	-	-
Federal assistance	286,432	-	-
State assistance	126,701	-	-
Reimbursements	11,619,591	-	-
Other	113,697	-	-
Total Revenues	<u>12,905,747</u>	<u>21,829</u>	<u>65,547</u>
EXPENDITURES			
Salaries and benefits	9,779,701	-	-
Services and supplies	2,865,431	-	-
Capital outlay:			
Structures and improvements	-	-	197,153
Vehicles	504,270	-	-
Equipment	326,725	-	-
Total Expenditures	<u>13,476,127</u>	<u>-</u>	<u>197,153</u>
Excess of Revenues Over (Under) Expenditures	<u>(570,380)</u>	<u>21,829</u>	<u>(131,606)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	2,457	-	-
Transfer out	(85,423)	-	-
Loss on sale of capital assets	(52)	-	-
Total Other Financing Sources (Uses)	<u>(83,018)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(653,398)	21,829	(131,606)
Fund Balances - beginning	<u>3,178,489</u>	<u>823,059</u>	<u>2,493,351</u>
Fund Balances - ending	<u>\$ 2,525,091</u>	<u>\$ 844,888</u>	<u>\$ 2,361,745</u>

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 28,580	\$ 188,638
-	5,471
-	681,173
-	286,432
-	126,701
-	11,619,591
-	113,697
28,580	13,021,703
-	9,779,701
-	2,865,431
8,297	205,450
-	504,270
-	326,725
8,297	13,681,577
20,283	(659,874)
435,423	437,880
-	(85,423)
-	(52)
435,423	352,405
455,706	(307,469)
1,031,446	7,526,345
\$ 1,487,152	\$ 7,218,876

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**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ (307,469)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$978,045) exceeded depreciation expense (\$451,622) in the current period.	526,423
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable	(70,260)
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Change in Net Assets of Governmental Activities	\$ 148,694
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Net Assets
Proprietary Fund
June 30, 2006

	ENTERPRISE FUND Ambulance
ASSETS	
Cash and cash equivalents	\$ 86
Interest receivable	200
	<hr/>
Total Assets	286
	<hr/>
LIABILITIES	-
	<hr/>
NET ASSETS	
Unrestricted	286
	<hr/>
Total Net Assets	\$ 286
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	ENTERPRISE FUND <hr/> Ambulance <hr/>
OPERATING REVENUES	
Intergovernmental	\$ (63,027)
Total Operating Revenues	<hr/> (63,027) <hr/>
NONOPERATING REVENUES	
Investment earnings	<hr/> 1,334 <hr/>
Total Nonoperating Revenues	<hr/> 1,334 <hr/>
Change in Net Assets	(61,693)
Total Net Assets - beginning	<hr/> 61,979 <hr/>
Total Net Assets - ending	<hr/> \$ 286 <hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006**

	ENTERPRISE FUND <u>Ambulance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (63,027)
Net Cash Used For Operating Activities	<u>(63,027)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>1,493</u>
Net Cash Provided By Investing Activities	<u>1,493</u>
Net Decrease in Cash and Cash Equivalents	(61,534)
Cash and Cash Equivalents - beginning of the year	<u>61,620</u>
Cash and Cash Equivalents - end of the year	<u><u>\$ 86</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (63,027)
Adjustments to reconcile operating (loss) to net cash used for operating activities:	<u>-</u>
Net Cash Used For Operating Activities	<u><u>\$ (63,027)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Statement of Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006**

ASSETS

Cash and cash equivalents	<u>\$ 584,769</u>
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Total Assets	<u><u>\$ 584,769</u></u>
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LIABILITIES

Due to bondholders	<u>\$ 584,769</u>
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Total Liabilities	<u><u>\$ 584,769</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide the centralized mechanism for administration of personnel who serve all board governed districts. The employees are engaged in multi-district operations funded by the various sanitation, water, road, streetlights, park and fire districts. Staff provides centralized and regional management services, administration, budget and finance, human resources, payroll and information services.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Accum Reserve" is a reserve account that the water and sewer districts use to purchase pooled capital assets.

The *capital projects fund* labeled "GH WWTP" is used to account for the construction of Glen Helen's waste water treatment plant.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the ambulance transportation services under the administration of the County Fire Department.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for ambulance transportation services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2006 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>\$ 765,143</u>	<u>\$ 578,243</u>	<u>\$ 507,983</u>	<u>\$ 835,403</u>

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Transfer Out	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 235,826	\$ -	\$ -	\$ -	\$ 235,826
Construction in progress	69,535	168,142	-	-	237,677
Total capital assets, not being depreciated	305,361	168,142	-	-	473,503
Capital assets, being depreciated:					
Improvements to land	666,962	-	-	-	666,962
Structures and improvements	106,756	-	-	-	106,756
Vehicles	2,745,516	500,905	(13,724)	24,465	3,257,162
Equipment	604,263	308,998	(13,612)	-	899,649
Total capital assets, being depreciated	4,123,497	809,903	(27,336)	24,465	4,930,529
Less accumulated depreciation for:					
Improvements to land	(91,902)	(42,027)	-	-	(133,929)
Structures and improvements	(45,270)	(2,372)	-	-	(47,642)
Vehicles	(1,703,854)	(353,880)	13,724	(24,465)	(2,068,475)
Equipment	(358,053)	(53,343)	13,612	-	(397,784)
Total accumulated depreciation	(2,199,079)	(451,622)	27,336	(24,465)	(2,647,830)
Total capital assets, being depreciated, net	1,924,418	358,281	-	-	2,282,699
Governmental activities capital assets, net	<u>\$ 2,229,779</u>	<u>\$ 526,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,756,202</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006**

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 4: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	172,563
Annual Contributions Made	166,614
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	844,882
Pension Assets, End of Year	<u>\$ 838,933</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Notes to Financial Statements
June 30, 2006**

NOTE 6: RISK MANAGEMENT (continued)

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the CSA made the following interfund transfers in and out:

	GH WWTP (CAC)	Nonmajor Governmental Funds	Total
Transfers out:			
General (SKV)	\$ -	\$ 85,423	\$ 85,423
GH WWTP (CAC)	2,181,655	-	2,181,655
	<u>\$ 2,181,655</u>	<u>\$ 85,423</u>	<u>\$ 2,267,078</u>

NOTE 8: CONTINGENCIES

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2006

SPECIAL REVENUE FUND				
General (SKV)				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment earnings	\$ 57,000	\$ 57,000	\$ 72,682	\$ 15,682
Contributions	463,288	463,288	5,471	(457,817)
Service fees	173,260	173,260	681,173	507,913
Federal assistance	-	-	286,432	286,432
State assistance	-	-	126,701	126,701
Reimbursements	11,415,814	11,415,814	11,619,591	203,777
Other	744,877	744,877	113,697	(631,180)
Total Revenues	12,854,239	12,854,239	12,905,747	51,508
EXPENDITURES:				
Salaries and benefits	10,362,500	10,402,073	9,779,701	622,372
Services and supplies	2,675,766	2,871,821	2,865,431	6,390
Capital outlay:				
Equipment	492,000	492,000	326,725	165,275
Vehicles	500,001	500,001	504,270	(4,269)
Reserves and contingencies	1,021,985	1,021,985	-	1,021,985
Total Expenditures	15,052,252	15,287,880	13,476,127	1,811,753
Excess of Revenues Over (Under) Expenditures	(2,198,013)	(2,433,641)	(570,380)	1,863,261
OTHER FINANCING SOURCES (USES)				
Transfer in	247,900	247,900	2,457	(245,443)
Transfer out	(390,624)	(154,996)	(85,423)	69,573
Loss on sale of capital assets	-	-	(52)	(52)
Total Other Financing Sources (Uses)	(142,724)	92,904	(83,018)	(175,922)
Net Change in Fund Balance	\$ (2,340,737)	\$ (2,340,737)	(653,398)	\$ 1,687,339
Fund Balance - beginning			3,178,489	
Fund Balance - ending			\$ 2,525,091	

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>Term Benefit (SKW)</u>	<u>Reserve for Replacement (SKU)</u>
ASSETS		
Cash and cash equivalents	\$ 511,878	\$ 402,512
Interest receivable	4,410	3,510
Due from other funds	-	-
	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 516,288</u>	<u>\$ 406,022</u>
LIABILITIES AND FUND BALANCES		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:		
Unreserved:		
Undesignated	<u>516,288</u>	<u>406,022</u>
Total Fund Balances	<u>516,288</u>	<u>406,022</u>
Total Liabilities and Fund Balances	<u>\$ 516,288</u>	<u>\$ 406,022</u>

CAPITAL PROJECTS FUNDS

Warehouse (CJA)	Blake Little League (CJJ)	PAL (CLL)	Amiga Flood Control (CHE)	Kaiser Commerce Center (CJX)
\$ 104,955 993	\$ 7,101 67	\$ 457	\$ 202	\$ 107,249 1,015
-	-	-	-	-
<u>\$ 105,948</u>	<u>\$ 7,168</u>	<u>\$ 457</u>	<u>\$ 202</u>	<u>\$ 108,264</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
105,948	7,168	457	202	108,264
105,948	7,168	457	202	108,264
<u>\$ 105,948</u>	<u>\$ 7,168</u>	<u>\$ 457</u>	<u>\$ 202</u>	<u>\$ 108,264</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	<u>CAPITAL PROJECTS FUNDS</u>		Total Nonmajor Governmental Funds (see Exhibit C)
	Redlands Citrus Plaza (CAA)	EL Rancho Verde Landscaping (CAY)	
ASSETS			
Cash and cash equivalents	\$ 290	\$ 341,421	\$ 1,476,065
Due from other funds		-	9,995
Interest receivable	-	1,092	1,092
Total Assets	<u>\$ 290</u>	<u>\$ 342,513</u>	<u>\$ 1,487,152</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>290</u>	<u>342,513</u>	<u>1,487,152</u>
Total Fund Balances	<u>290</u>	<u>342,513</u>	<u>1,487,152</u>
Total Liabilities and Fund Balances	<u>\$ 290</u>	<u>\$ 342,513</u>	<u>\$ 1,487,152</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006**

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>Term Benefit (SKW)</u>	<u>Reserve for Replacement (SKU)</u>
REVENUES		
Investment earnings	<u>\$ 12,418</u>	<u>\$ 9,241</u>
Total Revenues	<u>12,418</u>	<u>9,241</u>
EXPENDITURES		
Capital outlay:		
Structures and improvements	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures		
Expenditures	<u>12,418</u>	<u>9,241</u>
OTHER FINANCING SOURCES (USES)		
Transfer in	<u>50,423</u>	<u>35,000</u>
Total Other Financing Sources (Uses)	<u>50,423</u>	<u>35,000</u>
Net Change in Fund Balances	62,841	44,241
Fund Balances - beginning	<u>453,447</u>	<u>361,781</u>
Fund Balances - ending	<u><u>\$ 516,288</u></u>	<u><u>\$ 406,022</u></u>

CAPITAL PROJECTS FUNDS

Warehouse (CJA)	Blake Little League (CJJ)	PAL (CLL)	Amiga Flood Control (CHE)	Kaiser Commerce Center (CJX)
\$ 2,893	\$ 238	\$ 11	\$ 7	\$ 2,955
2,893	238	11	7	2,955
-	-	-	-	-
-	-	-	-	-
2,893	238	11	7	2,955
-	-	-	-	-
-	-	-	-	-
2,893	238	11	7	2,955
103,055	6,930	446	195	105,309
\$ 105,948	\$ 7,168	\$ 457	\$ 202	\$ 108,264

**County of San Bernardino Special Districts
County Service Area No. 70 - Countywide
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2006**

	<u>CAPITAL PROJECTS FUNDS</u>		Total Nonmajor Governmental Funds (see Exhibit D)
	<u>Redlands Citrus Plaza (CAA)</u>	<u>El Rancho Verde Landscaping (CAY)</u>	
REVENUES			
Investment earnings	<u>\$ 7</u>	<u>\$ 810</u>	<u>\$ 28,580</u>
Total Revenues	<u>7</u>	<u>810</u>	<u>28,580</u>
EXPENDITURES			
Capital outlay:			
Structures and improvements	<u>-</u>	<u>8,297</u>	<u>8,297</u>
Total Expenditures	<u>-</u>	<u>8,297</u>	<u>8,297</u>
Excess of Revenues Over (Under) Expenditures	<u>7</u>	<u>(7,487)</u>	<u>20,283</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	<u>-</u>	<u>350,000</u>	<u>435,423</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>350,000</u>	<u>435,423</u>
Net Change in Fund Balances	<u>7</u>	<u>342,513</u>	<u>455,706</u>
Fund Balances - beginning	<u>283</u>	<u>-</u>	<u>1,031,446</u>
Fund Balances - ending	<u><u>\$ 290</u></u>	<u><u>\$ 342,513</u></u>	<u><u>\$ 1,487,152</u></u>